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## **MASSPORT'S FINANCIAL RECOVERY PLAN**

**NOVEMBER 16, 2001**

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The purpose of this communication is to serve as a progress report to Massport's bondholders, to the investment community and to other stakeholders on the Authority's efforts to adjust to the new financial realities that confront us all in the post-September 11<sup>th</sup> environment.

In October, Massport's Board revised the Authority's revenue and operating budgets as part of the Financial Recovery Plan. That plan was based upon the assumption that, on average, the passengers at Logan Airport for FY2002 would be 70% of the originally expected FY02 levels, and that parking revenue would be 65% of the originally expected levels. The resulting revenue projection was \$300.3 million (down from \$370.5 million). After recognizing the absence of a \$28.9 million surplus programmed in the prior budget and allowing for \$10 million in increased security costs, Massport identified a projected \$51 million budget shortfall.

Since then, staff has worked closely with the operating departments and identified sufficient reductions to meet this target. Specific action steps have included freezing current vacancies and hiring (except in a few key cases, such as security), reductions in travel and training, elimination of certain departments and functions, cancellation of selected personal services contracts, renegotiation of many operating contracts for such services as cleaning and bus hours, and the roll-back of senior manager salaries. The deposit to the Maintenance Reserve Fund was reduced to the minimum amount required under the 1978 Trust Agreement. A combination of an early retirement incentive and layoffs is being used to reduce the size of Massport's payroll by approximately 15% by early summer or the start of FY03. Taken together, staff expects these reductions will enable the Authority to enter FY03 with an operating budget sized to match the revenues associated with a level of passengers at Logan for FY03 currently forecasted by the carriers at 20% below the originally expected FY02 level, and with parking revenue at 75% of the original FY02 budget.

On November 12<sup>th</sup>, parking rates at Logan were increased from \$18 per day to \$22 per day. It is expected that this increase will generate \$5 million in incremental revenue during the last half of the fiscal year.

The next step in the Fiscal Recovery Plan was to reexamine the Authority's capital program. Due to the difficulty in projecting future traffic patterns, and to the current unease of the municipal bond market regarding airport bonds, the capital plan has been revised to rely on cash and existing bond proceeds through the summer of 2003. (Massport hopes to issue debt before then, but the revised plan has been conservatively structured.) Staff first identified projects currently under design or construction as well as future projects that staff felt were essential. These included the PFC funded work on the International Gateway, the roadway system and the walkways from the garage to Terminals B and C. The Board also allocated funds to complete the Authority's portions of the renovation of Terminal A that is being primarily built by Delta Air Lines. After a careful review of all projects, staff recommended a 37% reduction in the program for FY2002 and FY2003, from \$749 million to \$469.5 million. This revision was possible in part because of the modular nature of the Authority's capital plan, which consists of a series of projects that are designed to be built and financed independently of each other.

What has been Logan's experience since September 11<sup>th</sup>? Passengers for September were 43% below the prior year, although landed weights and operations for September were only 33% below the prior year. Parking revenue was down 51% for that month, reflecting the four days that Logan was closed and the Authority's willingness to forego parking charges to travelers upon their initial return. Parking revenues improved in October, as they were only 45% below last year. September rental car revenue of \$1.6 million was 29% below the prior year.

On a cash basis, staff is optimistic that the Financial Recovery Program will meet its targets. The Authority's cash revenues are summed each month on the 7<sup>th</sup> business day of the month and distributed to other funds. Last summer's cash collections (excluding PFC's) were \$29 million through mid-July; \$28.6 million through mid-August; and \$33.9 million through mid-September. The mid-October number of \$20.8 reflected the parking losses of September. But the mid-November collections of \$27.2 million demonstrated a rebound and, after provision for operating expenses, were sufficient to cover all debt service deposits, make the revised deposits to the Maintenance Reserve Fund, to the Payment in Lieu of Tax Fund and to make a positive contribution to the Improvement & Extension Fund. As of October 30<sup>th</sup>, the balance in the I&E fund was \$153.6 million and the balance of the PFC Capital Fund was \$43 million.

In summary, the estimates assumed in the Financial Recovery Plan appear to be consistent with recent results. The implementation of the plan is proceeding as scheduled and Massport will continue to manage its financial resources in these difficult times.

The Authority's Executive Director, Virginia Buckingham, resigned as of October 25, 2001, and the Authority's Director of Aviation, Thomas J. Kinton, Jr., has been named Acting Executive Director/Director of Aviation.

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